

Idaho Legislative Audits
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Idaho Judicial Department

Management Report on Internal Control

Issued: December 29, 2003
Fiscal Year: 2001 and 2002



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO JUDICIAL DEPARTMENT

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Idaho Judicial Department's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The finding and recommendation noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Department's internal control structure and operating efficiency. This matter is discussed in the findings and recommendations section of this report.

FINDINGS AND RECOMMENDATIONS. We have summarized the finding and recommendation below. The recommendation is made to assist management in fulfilling its responsibility to establish and maintain adequate internal controls.

Finding #1. Insufficient internal controls over the expenditure process resulted in payments to incorrect vendors and duplicate payments.

The Department made two payments to incorrect vendors and nine duplicate payments. We did not review all transactions, and believe there may be other incorrect payments to vendors. Although the dollar amount of duplicate payments discovered is not material, and the payments to the incorrect vendors have been refunded, the number of errors indicates the need to implement internal controls to ensure expenditures are proper and to reduce the risk that funds may be misappropriated. The Department has procedures in place that could prevent these errors, such as supervisory review and a "pay from invoice" policy, but they are not always applied consistently or accurately.

We recommend that the Department review its accounting procedures, improve application of those controls already in place, and implement additional controls to detect and prevent these errors.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior report contained two findings and recommendations that are summarized as follows:

Prior Finding #1. Internal control over receipt processing was not sufficient to reduce the risk losing assets. We recommended that the Department enhance internal controls over receipts by:

1. Restrictively endorsing checks upon receipt.
2. Retaining and accounting for all copies of voided receipts.
3. Reviewing receipt trends.
4. Depositing receipts in a timely manner.
5. Documenting supervisory review of receipt batches.

The Department implemented sufficient internal controls, such as using pre-numbered receipts, preparing monthly in-house financial statements for management's analysis, and including two levels of review before transactions are recorded in the accounting system. **CLOSED.**

Prior Finding #2. Documentation for encumbrances was not in compliance with Idaho Code, Section 67-3521. Idaho Code, Section 67-3521, states, "Encumbrances ... shall be made only for a legally contracted obligation or for the accrued cost of a specific product or service due and payable prior to or as of the end of the current fiscal year or for the term of the contract obligation, and shall not be used as a means of reserving a portion of the appropriation of one (1) fiscal year to be used in combination with the appropriation of the following year. Request for encumbrances shall be accompanied by proper identification of the accrued costs which must be adequately covered by appropriated funds from the current fiscal year."

The Department did not have appropriate support such as purchase orders, contracts, or invoices for some of the \$285,925 that was encumbered during the prior audit. However, during this audit, we determined that the supporting documentation for encumbrances has improved. **CLOSED.**

AGENCY RESPONSE. The Department has reviewed the report and appreciates the recommendations to strengthen internal controls.

FINANCIAL SUMMARY. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report*, which includes the financial data presented here.

The Department receives a total annual appropriation of about \$28 million to administer and operate its programs. The General Fund appropriation comprises about \$25 million of the \$28 million. The Department uses a seventh fund (not shown in the schedules below) to administer the Judges' Retirement system. During fiscal year 2002, the Department spent \$22 million on personnel costs, \$5 million on operating expenses, and \$1 million on capital outlay. The following provides a brief summary of the Department's financial activity in fiscal years 2001 and 2002.

Idaho Judicial Department
FY 2001 Financial Summary

	Beginning Appropriation/ Cash	Beginning Encumbrances/ Receipts/ Transfers In	Ending Encumbrances/ Disbursements/ Transfers Out	Ending Appropriation/ Cash
General Fund 0001	\$22,374,300	\$236,207	\$22,576,038	\$34,469
Guardian Ad Litem Fund 2039	13,863	462,260	474,500	1,623
ISTARS Technology Fund 0314	41,984	1,574,182	1,150,270	465,896
Federal Fund 0348	151,874	580,112	731,896	0
Miscellaneous Revenue Fund 0349	141,455	306,052	163,405	284,102
Millennium Fund 0499	0	163,411	154,441	9,000
Total	<u>\$22,723,476</u>	<u>\$3,322,224</u>	<u>\$25,250,610</u>	<u>\$786,091</u>

Idaho Judicial Department
FY 2002 Financial Summary

	Beginning Appropriation/ Cash	Beginning Encumbrances/ Receipts/ Transfers In	Ending Encumbrances/ Disbursements/ Transfers Out	Ending Appropriation/ Cash
General Fund 0001	\$25,002,300	\$64,026	\$25,005,133	\$61,193
Guardian Ad Litem Fund 2039	1,623	454,384	444,100	11,907
ISTARS Technology Fund 0314	465,896	1,557,023	1,784,542	238,377
Federal Fund 0348	0	415,209	412,002	3,207
Miscellaneous Revenue Fund 0349	284,102	209,942	263,779	230,265
Millennium Fund 0499	9,000	326,251	320,000	15,251
Total	<u>\$25,76,921</u>	<u>\$3,026,835</u>	<u>\$28,229,556</u>	<u>\$560,200</u>

The General Fund pays the costs of operating the Supreme Court, Court of Appeals, District Courts, Magistrate Divisions, State Law Library, and Judicial Council.

The Guardian Ad Litem Fund receives a General Fund appropriation. This fund pays the administrative expenses and grants to qualified programs to recruit, train, and coordinate volunteers as guardians ad litem for abused, neglected, or abandoned children.

The Idaho Statewide Trial Court Automated Records System (ISTARS) Technology Fund receives court filing fees that are used to maintain, replace, and enhance ISTARS

The Federal Fund receives federal grant money to pay expenses related to federal grants such as court assistants or child advocacy.

The Miscellaneous Revenue Fund receives fees primarily for providing computer-aided legal research and pays for the operating expenses of the research.

The Millennium Fund receives appropriations from tobacco settlement receipt earnings. The money is used for youth courts and community-based programs in the judicial districts that address tobacco and/or substance abuse.

The Judges' Retirement Fund receipts come from court filing fees, employer and employee contributions, and investment earnings. Disbursements from the fund are for retirement benefits, actuarial valuations, investment management fees, administrative expenses, and investment losses. The Judges' Retirement Fund had actuarial market valued assets of \$46.9 million, benefits and refunds paid to plan members of \$2.9 million, and \$16.2 million of unfunded accrued liability for fiscal year 2002. This information is contained in the *Comprehensive Annual Financial Report* issued by the State of Idaho.

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Judicial Department and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by the administrative director, Patricia Tobias, and her staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

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Thomas Haddock, CPA, CGFM, Managing Auditor

Report IC 11002

For a copy of the entire audit report, contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.
